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SUBJECT: Taipei Economic Brief for May

REF: TAIPEI 1481

11. This cable summarizes selected recent economic events in Taiwan in May 2006:

- TIFA talks
- 2006 economic growth
- Cross-Strait cooperation
- Taiwan IPR officials in Beijing
- Taiwan relaxes PRC investment rules
- Solar and biomass energy
- Taiwan Sugar to produce bio-ethanol
- Communications networks
- Taiwan's cable TV industry
- Taxes on foreign companies

US-Taiwan Economic Consultations

12. Trade and Investment Framework Agreement (TIFA) talks between the United States and Taiwan took place in Taipei May 25 - 26. Deputy USTR Karan Bhatia and Taiwan's Vice Economic Minister Steve Chen jointly presided over the negotiations. The two sides agreed to set up a bilateral consultative committee on agricultural trade policy issues, and to discuss intellectual property rights issues once every six months. On pharmaceutical issues, the two sides will cooperate to ensure a transparent, accurate and fair process in pharmaceutical pricing.

Taiwan Optimistic on 2006 Economic Performance

13. The Directorate General of Budget, Accounting and Statistics

(DGBAS) raised its estimated 2006 economic growth to 4.31% from 4.25% estimated in February. The DGBAS explained that developed economies such as the United States and EU have performed better than expected, and their strong demand is driving expansion of Taiwan's export sector. Export orders in April grew nearly 20% from a year ago to the second highest record of US\$25 billion. Growth rates reached 26% for orders from the United States, 35% for orders from the EU, and 26% for orders from Greater China (PRC plus Hong Kong). Y-o-y export growth in April reached 15%.

14. The DGBAS predicts private investment will switch from a decline of 1.3% in 2005 to growth of 3.6% in 2006. Foreign investment approved in the first four months more than doubled from a year ago. Taiwan's unemployment rate in April declined to a 63-month low of 3.78%. Its April inflation rate was barely above one percent, lower than about 3% in the United States and above 2% in Hong Kong and South Korea.

Taiwan & PRC Cooperate on IT Standards ...

15. Economic cooperation between Taiwan and the PRC reached a new high on May 10 when PRC Information Industry Vice Minister Jiang Yao-ping led a 45-member delegation to attend a two-day cross-strait information industry standards forum. This forum, which has met three times since July 2005, has been a platform for Taiwan and the PRC to cooperate in development of common information technology standards.

... And Discuss Cross-Strait IPR Protection

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16. Four high-ranking officials of the Taiwan Intellectual Property Office (TIPO) joined a delegation organized by Taiwan's Chinese National Federation of Industries to visit the PRC from May 23 to June 1. Taiwan's TIPO officials spent five days in Beijing discussing intellectual property rights with counterparts from the PRC's Trademark Bureau, Patent Bureau, Copyright Bureau, and Trademark Screening Committee. They discussed protection of Taiwan-registered trademarks and patents, PRC entities' use of famous Taiwan geographic names, and joint efforts to control commercial piracy and smuggling.

Taiwan Relaxes Restrictions on PRC Investment

17. On May 23, Taiwan's Ministry of Economic Affairs (MOEA) lifted a ban on Taiwan venture capital companies investing in the PRC. On April 27, MOEA dropped semiconductor packaging and testing, and small flat panel displays from a list of industries in China closed to Taiwan investment (reftel). Taiwan's Foreign Investment Commission has already approved Toppoly Optoelectronics' US\$21 million project to acquire a flat panel display plant in Shanghai from Philips (Netherlands).

Taiwan to Develop Solar and Biomass Energies

18. In response to higher oil prices, the Ministry of Economic Affairs (MOEA) has decided to promote solar energy and biomass energy. According to MOEA, Taiwan's high-tech industry achievements offer enormous advantages in developing solar energy by integrating research teams across different agencies and organizations to pursue technology breakthroughs. MOEA is promoting production of biomass diesel fuels by encouraging conversion of fallow farmlands to grow sunflowers, soy beans, and other crop-based energy sources. In late April, the first biomass electric power plant, located in Chiayi, signed contracts with 12 farmers associations in Yunlin, Chiayi, and Tainan to supply its biomass production needs.

Taisugar to Produce Bio-ethanol Fuel

19. State-owned Taiwan Sugar Corporation (TSC) will expand its

sugarcane production this year to produce bio-ethanol at existing refining facilities in Huwei, Nan'jing and Shanhua. In addition, TSC will build a new bio-ethanol refinery in Pingtung. The Pingtung

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plant will raise Taiwan's annual bio-ethanol production capacity to three million kiloliters, sufficient to meet 2.7% of total energy demand. MOEA estimates that bio-ethanol production cost, excluding land, should be less than the cost of producing gasoline. Taiwan authorities will pay a subsidy of NT\$45,000 for every hectare of land used to produce bio-ethanol.

Chunghwa Telecom to Build Next Generation Network

¶10. Chunghwa Telecom (CHT) recently announced a plan to build a Next Generation Network (NGN) at an estimated cost of between NT\$120 billion (US\$3.7 billion) and NT\$130 billion (US\$4.1 billion). Construction is scheduled to be completed in 2013. CHT believes convergence trends among telecom and Internet providers, will require new telecommunications equipment that supports combined fixed-line, cellular phone and internet services in a single network platform. Given the huge construction costs, international

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suppliers (including Lucent, Siemens, Nortel, Juniper, Cisco, and Alcatel) are competing for business opportunities.

Taiwan's Cable TV Industry Welcomes Foreign Investment

¶11. Foreign and local companies are competing for the top spot in Taiwan's cable TV industry. The Carlyle Group recently bought a majority stake in Eastern Multimedia. Other recent notable activities in the market included Australian conglomerate Macquarie Media Group's acquisition of Taiwan Broadband Communications and Hong Kong StarTV's purchase of China Network Systems (CNS), Taiwan's largest multiple service operator (MSO). Local MSOs welcome foreign companies because the fiercest competition is from recently privatized Chunghwa Telecom, which still holds an overwhelming market share.

Uniform Tax Rate for Foreign Companies

¶12. On May 2, the Legislative Yuan passed a revised Income Tax Law which has a uniform tax withholding rate of 20% for dividends paid overseas. In the past, the tax regulations imposed different tax rates on Taiwan-earned dividends distributed overseas depending on whether the companies operated through a branch, subsidiary, or local agent. The new law excludes deductions previously permitted for local costs and expenses.

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